

## Message Text

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ACTION XMB-07

INFO OCT-01 EUR-25 ADP-00 EB-11 STR-08 TRSE-00 COME-00

OMB-01 CIEP-02 AGR-20 CIAE-00 DODE-00 PM-09 H-02

INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15

USIA-12 SAJ-01 GAC-01 RSR-01 /144 W

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P 061415 Z APR 73

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC PRIORITY 7785

C O N F I D E N T I A L SECTION 1 OF 2 MOSCOW 3800

E. O. 11652: GDS

TAGS: OVIP (KEARNS, HENRY) EFIN UR US

SUBJ: KEARNS VISIT TO USSR: DISCUSSIONS WITH BANKING AND  
TRADE OFFICIALS

PASS EXIMBANK AND COMMERCE ( BEWT)

1. PRESIDENT AND CHAIRMAN OF EXIMBANK HENRY KEARNS VISITED SOVIET UNION MARCH 29 TO APRIL 5. KEARNS HAD EXTENSIVE ROUND OF TALKS WITH SOVIET OFFICIALS BEGINNING WITH KOSYGIN (REPORTED SEPTEL) AND INCLUDING FOREIGN TRADE MINISTER N. S. PATOLICHEV; YU. A. IVANOV, CHAIRMAN OF BANK FOR FOREIGN TRADE; M. N. SVESHNIKOV, CHAIRMAN OF GOSBANK; K. I. NAZARKIN, CHAIRMAN OF COMECON INTERNATIONAL BANK FOR ECONOMIC COOPERATION; V. A. SERGEYEV, DEPUTY CHAIRMAN OF STATE COMMITTEE FOR FOREIGN ECONOMIC RELATIONS; A. M. TARASOV, MINISTER OF AUTOMOBILE INDUSTRY; D. M. GVISHIANI, DEPUTY CHAIRMAN OF STATE COMMITTEE FOR SCIENCE AND TECHNOLOGY; V. A. VOROBYOV, CHAIRMAN OF COMECON INTERNATIONAL INVESTMENT BANK; V. S. ALKHIMOV, DEPUTY FOREIGN TRADE MINISTER; AND V. B. SPANDARYAN, CHIEF OF GOSPLAN FOREIGN TRADE DEPARTMENT. TALKS WERE AMICABLE AND EDUCATIONAL FOR BOTH SIDES.

2. FOLLOWING ARE HIGHLIGHTS OF THESE DISCUSSIONS WHICH  
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BEING REPORTED IN DETAIL SEPARATELY IN MEMCONS.

3. CHAIRMAN KEARNS SOUGHT TO IMPRESS ON SOVIETS THAT IN THIS BEGINNING STAGE OF EXIMBANK- BANK FOR FOREIGN TRADE (BFT) RELATIONSHIP SOVIETS MUST COMPLY WITH SAME REQUIREMENTS EXIMBANK APPLIES TO OTHER 140 COUNTRIES IT DEALS WITH. HE POINTED OUT FIGURE OF \$500 MILLION ESTABLISHED NOT AS LIMIT BUT AS REALISTIC ORDER OF MAGNITUDE FOR EXIMBANK LENDING TO USSR AT THIS TIME AND PENDING FURNISHING OF CERTAIN KINDS OF BASIC INFORMATION FROM SOVIET SIDE. SPECIFICALLY MENTIONED IN THIS CONNECTION WERE TRADE STATISTICS ON SOVIET EXPORTS AND IMPORTS TO BOTH CAPITALIST AND SOCIALIST COUNTRIES; DATA RE EXTERNAL DEBT OF USSR, ESPECIALLY TO CONVERTIBLE CURRENCY COUNTRIES AND HOW THAT RELATED TO DEBT SERVICING ABILITY; AND SOVIET RESERVES AS THEY RELATED TO EXTERNAL DEBT.

4. KEARNS STRESSED CLOSE MONITORING OF EXIMBANK ACTIVITIES BY CONGRESS THROUGH GAO AND CONSEQUENT NEED TO PROCEED RESPONSIBLY IN DEVELOPING RELATIONSHIP WITH USSR. REPEATEDLY HE NOTED THAT MAKING EXCEPTIONS FOR USSR AT THIS POINT WOULD OPEN EXIMBANK UP TO CHARGES OF ACTING IRRESPONSIBLY AND COULD RESULT IN STRICT LIMITS BEING IMPOSED ON LENDING TO USSR. DIRECTION OUR CREDIT RELATIONS WOULD TAKE WAS LARGELY UP TO SOVIETS: IF THEY WERE FORTHCOMING WITH RESPECT TO OUR INFORMATION NEEDS THEN IN TIME WE COULD PROBABLY FIND ENORMOUS SUMS OF MONEY TO FINANCE SOME OF LARGE PROJECTS NOW BEING DISCUSSED, PROVIDED THEY PROVED TO BE SOUND. ON OTHER HAND, IF SOVIETS WERE NOT FORTHCOMING, EXIMBANK FINANCING WOULD DOUBTLESS REMAIN AT RELATIVELY LOW LEVEL. PATOLICHEV OBLIQUELY INDICATED TO KEARNS SOVIETS WERE NOT ADAMANT ON POSITION OF REFUSING TO PROVIDE MORE INFORMATION TO EXIMBANK.

5. SOVIETS ARGUED THAT US AND USSR ARE WORLD'S TWO LARGEST ECONOMIES AND HAVE SPECIAL OVERALL RELATIONSHIP, CONSEQUENTLY USSR SHOULD NOT BE TREATED LIKE OTHER COUNTRIES EXIMBANK DEALS WITH. THEY POINTED OUT SOVIET LEADERSHIP COULD NOT COMPREHEND US INSISTENCE ON OBTAINING INFORMATION ABOUT SOVIET FOREIGN TRADE AND RESERVE POSITION WHEN NO OTHER CAPITALIST COUNTRY WITH WHICH THEY HAD EXTENSIVE CREDIT RELATIONS DEMANDED SUCH INFO. SOVIET OFFICIALS EXPRESSED  
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CONFIDENCE THAT IN TIME A WAY WOULD BE FOUND TO COME TO

SPECIAL UNDERSTANDING ABOUT TERMS ON WHICH CREDIT FROM US WOULD BE GRANTED. OTHERWISE LARGE PROJECTS LIKE LNG AND FERTILIZER EXCHANGE COULD NOT HAPPEN. KEARNS MADE CLEAR THAT IN FACT MIGHT BE CASE AND SOUGHT TO DISABUSE THEM OF NOTION THAT OVER NEAR TERM THERE WOULD BE ANY CHANGES IN EXIMBANK REQUIREMENTS.

6. SOVIETS ALSO BALKED AT REQUIREMENT TO PROVIDE RUNNING INFORMATION ON PROGRESS OF PROJECT WHICH EXIMBANK FINANCING, STRESSING THEY CAPABLE OF GUARANTEEING PAYMENT AND THAT THEIR HISTORY PROVED THIS. GOSPLAN OFFICIAL LATER STRESSED REPAYMENTS ARE PART OF STATE PLAN AND THEREFORE LAW. KEARNS POINTED OUT NOT QUESTION OF LACK OF CONFIDENCE IN THEIR ABILITY TO REPAY BUT OUR NEED TO MAKE PERIODIC REPORTS TO GAO THAT MONEY LENT WAS BEING SPENT AS PROVIDED IN AGREEMENT. BFT CHAIRMAN IVANOV OBSERVED DRYLY THAT THIS REQUIREMENT NOT " POPULAR AROUND HERE."

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P 061415 Z APR 73

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC PRIORITY 7786

C O N F I D E N T I A L SECTION 2 OF 2 MOSCOW 3800

E. O. 11652: GDS

TAGS: OVIP ( KEARNS, HENRY) EFIN UR US

SUBJ: KEARNS ESIT TO USSR: DISCUSSIONS WITH BANKING AND  
TRADE OFFICIALS

7. SOVIETS RAISED QUESTION OF OPEN LINE OF CREDIT FROM EXIMBANK NOT TIED TO SPECIFIC PROJECTS BUT TO BE DRAWN DOWN FOR PURCHASE OF WHATEVER THEY NEEDED IN US. KEARNS TOLD

THEM THIS MATTER HAD BEEN DISCUSSED AT LENGTH IN WASHINGTON AND BECAUSE OF OUR EXISTING PROCEDURES HE DID NOT SEE WAY AT THIS TIME TO PROVIDE OPEN BLOCK CREDIT TO THEM. HE POINTED OUT WE DO HAVE PRELIMINARY COMMITMENT PROCEDURE WHICH TELLS THEM BEFORE THEY MAKE FINAL DECISION WHAT FINANCING WE COULD PROVIDE WITH REFERENCE TO A SPECIFIC PROJECT. PRINCIPAL PROBLEM WITH OPEN CREDIT FOR US WAS NECESSITY FOR US TO BE IN POSITION TO REPORT TO CONGRESS AT ANY MOMENT ON EXIMBANK ACTIVITIES. SOVIETS REPLIED WHAT THEY HAD IN MIND WAS BIG PROJECTS AND SYSTEM EXIMBANK WAS PRESENTLY USING WOULD NOT WORK FOR THEM, OR AT LEAST NOT WELL. KEARNS SAID HE DID NOT SEE WHY PRESENT SYSTEM COULD NOT BE USED FOR LARGE PROJECTS, BUT IN ANY EVENT HE WOULD HAVE TO TAKE ONE STEP AFTER ANOTHER TOWARD THOSE PROJECTS.

8. AS GENERAL RESPONSE TO INSISTENT SOVIET ARGUMENT THAT RULES OF GAME WOULD HAVE TO BE CHANGED FOR THEM, CONFIDENTIAL

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CHAIRMAN KEARNS UNDERSCORED FACT THAT TO LARGE DEGREE PRIVATE BANKS IN US TAKE LEAD FROM EXIMBANK AND THAT THEY CONTROL MANY TIMES MORE LENDING FUNDS THAN HIS BANK. THUS IF SOVIETS FAIL TO TAKE ACTIONS REQUIRED AND LIMIT IS IMPOSED ON EXIMBANK LENDING TO USSR, PRIVATE US BANKS WOULD TEND TO FOLLOW SUIT. WHETHER THIS WAS PERSUASIVE LINE TO SOVIETS OR NOT COULD NOT BE WELL JUDGED, BUT THERE WAS NO DOUBT THEY UNDERSTOOD OPTIONS OPEN TO THEM OVER NEAR TERM. KEARNS HIT HARD ON POINT THAT IN OPENING UP BUSINESS RELATIONSHIP WITH USSR, US NOT LEADING FROM WEAKNESS BUT FROM STRONGEST ECONOMIC POSITION IN MANY YEARS.

9. COMING TO MORE CONCRETE MATTER, S, ALKHIMOV INFORMED KEARNS THAT SOVIET FOREIGN TRADE ORGANIZATIONS WERE MOVING FORWARD WITH POSSIBLE PURCHASES TO TAKE UP OUTSTANDING AMOUNT UNDER \$500 MILLION " LIMIT" SINCE THEY WOULD LIKE TO MAKE MAXIMUM USE OF MONEY. THEY HAD NARROWED DOWN FIELD TO FOLLOWING:

- A. " VERY LARGE" TERELENE SYNTHETIC FIBRE PLANT IN \$80-100 MILLION RANGE;
- B. ARTIFICIAL FUR EQUIPMENT;
- C. SYNTHETIC LEATHER EQUIPMENT;
- D. TEXTILE AND OTHER LIGHT INDUSTRY EQUIPMENT;
- E. A SECOND TABLEWARE PLANT ( PROBABLY TO BE SIGNED IN " NEXT FEW WEEKS");
- F. A TRACTOR PLANT, IF US COMPETITIVE. ASIDE FROM MENTION THAT CONTRACT ON TABLEWARE NEAR, ALKHIMOV DID NOT INDICATE WHETHER NEGOTIATIONS ARE UNDERWAY ON OTHER SUBJECTS. PATOLICHEV LATER INDICATED THESE SUBJECTS HAD BEEN

APPROVED FOR NEGOTIATION BY " GOVERNMENT" AND " CENTRAL  
COMMITTEE."

10. NOTEWORTHY BITS OF INFORMATION COMING FROM THESE CONVER-  
SATIONS ARE FOLLOWING:

ALKHIMOV: WITH REFERENCE TO RECENT DEVALUATION OF  
DOLLAR, SOVIETS WOULD LIKE TO ASSURE US THAT THEY DO NOT  
SPECULATE AGAINST THE DOLLAR.

ALKHIMOV: IN BEGINNING YEARS OF OUR TRADE EXPANSION,  
USSR WILL USE ITS FAVORABLE BALANCES WITH OTHER COUNTRIES  
AND GOLD SALES TO PAY FOR IMPORTS. "\$90 IS A GOOD PRICE FOR  
GOLD."

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VOROBOYOV: HIS BANK HOPES W  
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